



RESIDENTIAL REAL ESTATE
MARKET OVERVIEW
2009

Content

Summary.....	3
Residential real estate. Russia. Moscow region. Residential construction.....	5
Residential real estate. Moscow. Residential construction. Projects and Programs.....	6
Residential real estate. Moscow.....	7
Residential real estate. Elite segment. Moscow. Sale.....	10
Residential real estate. Elite segment. Moscow. Rent.....	13
Countryside. Land market.....	18

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Summary

Summing up 2009, we are safe to say that the worst expectations were not confirmed: there was neither major economic collapse nor did the market see massive bankruptcies. Of course, prices declined both in the residential and commercial segments and many assets changed hands. Several companies were forced to file for bankruptcy. Even though the market was hit by the crisis, it didn't suffer any catastrophic losses. As a result, the market players were divided into two groups. One consists of optimists, the other of pessimists. The optimists say that the market stability will result in its gradual recovery in 2010 and the pessimists maintain that the price corrections in the Russian real estate market are not enough for the global financial crisis and new wake of crisis is inevitable.

The economic results of the Russian economy for 2009 support the optimistic point of view. Even if the main indicators demonstrated negative dynamics throughout most of the year, the overall decline was not too serious and, secondly, the situation showed some tentative signs of improvement since fall. As of the first 11 months of 2009, the commissioning of residential houses fell 0,4% versus the corresponding period last year. Real disposable income increased 1,1%. The retail turnover declined 5,7% and the turnover in the food products sector – 2,8%. The volume of paid services to the population dropped 4,4%.

The investment and credit sphere was hit most severely. The investments in the construction and construction materials sector dived 28,4 in January-September 2009. As of the first nine months of 2009, the investments in cement and concrete production dropped 39,4%. Besides, the investments in the retail business fell 32,6%.

As far as credits are concerned, they were virtually inaccessible for developers and end users. It didn't affect much the economic indicators: the retail turnover decreased very little, residential market evaded overstocking.

It should have had a positive effect over the developers as there is still demand, and it hasn't decreased much. However, it didn't happen since the development model of the Russian real estate segment envisaged constant and high growth of this demand. Any decline in the growth or its stunt is extremely perilous for such a model. It's similar to the Chinese economic model: considering the growing population, the economy must grow at least 7-8% to maintain the sys-

tem stability. Besides, the Russian model also envisaged a decrease in cost of money and its growing accessibility – and that's was the hardest blow for the developers, as the situation in the financial sector was just the opposite. Some people couldn't survive the economic collapse, others, on the contrary, were finally able to enter the market. Now the market players are more realistic regarding their projects under implementation and in the pipeline. And, what is most important, this situation gives the people who survived 2009 and who still plan to remain in the real estate business a chance to "enjoy" a new period of lack of supply which is inevitable due to plummeting investment together with a much smaller decline in demand. It's hard to say today when the market will see this lack, it will depend upon the segment. We believe it's likely to happen after 2010. In our opinion, the main trends of the second half of 2009 will gain momentum in 2010. However, the real estate market is the market of long-term investments and future success starts today. That is why 2010 will indeed become decisive year both for the experienced market players and the new-comers in the market.

As of 2009, 59,8 mln. sq. m. of residential space were delivered in Russia, which is 6,3% less than last year. We can say that the anticipated construction plans are fulfilled even if the initial plans had to be changed. Moscow Region is the leader in terms of residential buildings commissioned: 8,2 mln. sq. m. of residential space were delivered, which exceeds last year's index by 5%. 2,7 mln sq. m. of residential space were delivered in Moscow (17,7% less than in 2008). It's planned to deliver 3 mln. sq. m. of residential space in Moscow in 2010.

Throughout 2009, the supply of residential space in Moscow remained at a high level but the best properties in all the segments were quickly sold out and, in the short-term perspective, it may result in the deficit of high quality housing space.

2009 will enter the history of the Moscow residential real estate market as the year when buyers dominated the market as supply substantially exceeded active demand. The maximum gap between these two indexes was formed in winter 2009. Starting from spring 2009, the situation started to change: following the price decline, the buyers came back to the market and by fall 2009, the situation in the residential

Summary

sector stabilized. Still, the number of transactions in 2009 is practically the same as in 2008. Russian consumer credit plunged more than five times, and such a challenging situation in the mortgage lending segment impedes the market recovery. One of the measures to help the struggling sector is to reduce interest rates. In the mid-term perspective, the mortgage cost will hardly be lower than prior to the crisis but even a small reduction can be enough to convert latent demand into actual sales provided the economic situation remains stable.

Throughout 2009, the price dynamics in Moscow showed different trends: the prices declined early last year and bottomed out in the second half of the year. As a result, the average prices in the primary market of Moscow amounted to \$4 950 per sq. m. (annual price decline - 27,2%) and to \$5 450 per sq. m. in the secondary market (annual price decline - 18,8%).

Throughout 2009, the *elite real estate market* activity remained low, though several new residential complexes were commissioned: Barkly Plaza, Italian Quarter, Znamenka Residence, the residential complexes located at 21-23 Petrovsky Boulevard and at 12-24 Pechatnikov Lane. By the end of 2009, approx 203 thous. sq. m. of residential space, or 1211 apartments in 36 residential complexes, were available in the elite primary market.

The seller activity in the secondary market decreased somewhat by the end of 2009 and the amount of new supply went down.

Since the market situation stabilized, the deferred demand gradually recovered. By the end of 2009, the average prices for elite residential properties in Moscow reached \$17 000 per sq. m. in the primary market and \$22 440 per sq. m. in the secondary market. The average prices in the elite primary market declined 15%, while the average home price decline in the market was 27,2%.

In 2009, the *elite rental market* showed relative stability despite the crisis influence. The leaseholder activity was high, especially in early 2009. Further market development was more predictable and more dependent upon the seasonal factors. Demand in the elite rental segment remained strong throughout 2009, and it was the stable demand which help the rental market maintain its position. In previous years, the demand was maintained at a high level thanks to

foreign tenants. However, 2009 saw intense activity of Russian tenants.

So, by the end of 2009, the average rental rates in the elite segment amounted to \$6 600 per month per apartment. The rental rates of high-grade apartments grew 1,5% over the whole year.

We cannot say that demand for *elite countryside properties* was high in 2009. The market development was quite stable and dependant upon seasonal factors. Throughout 2009, the rental rates kept falling down. As a result, the average rental rates of high-grade cottages reached \$11 550 per month the annual price reduction being over 40%.

The overall supply structure of the *countryside residential real estate market of Moscow Region* underwent serious changes in 2009 as a huge number of economy class projects offering land plots without building contracts came into the market. The share of such economy class settlements in the overall amount of new supply reached 78%. As a result, the delivery paces of new projects in the countryside residential segment declined only 25% versus 2008. The general price reduction of high-end countryside homes was approx 30%, economy class homes - approx 20%.

Under the crisis conditions, most prospective buyers expected to purchase a countryside home with a 50% discount. All in all, the price per 1 sq. m. (taking into account the land price) reached \$4 900 in elite cottage settlements, \$3 200 in business class settlements and \$1 380 in economy class segments.

The number of land plots put for open sale grew substantially in the *wholesale land market of Moscow Region* as landlords and developers needed to raise cash. Besides, many land assets changed hands as the plots in Moscow Region previously owned by development companies were handed to major banks in the course of the debt restructuring process.

In 2009 the prices in the wholesale land market of Moscow Region declined approx 28% on average. As of the end of 2009, the average price per sotka was \$12 600 if the land plot was located within 15 km of MKAD. If the plot was located within 15-50 km of MKAD, the price per sotka varied between \$6 000 and \$9 500 and if it was located farther than 50 km from MKAD - \$1 750.

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Moscow. Residential construction

Projects and Programs

The developers were reluctant to initiate any new construction in Moscow under the financial crisis conditions and aimed at completing their current projects. However, many new municipal social programs including construction projects were announced. The programs envisage reorganiza-

tion of industrial areas, depletion and reconstruction of residential districts, etc.

The main buildings announced in 2009, are described below .

Some projects announced in 2009

Location	Description of anticipated construction
Reorganization of industrial zones program	
Territory adjacent to the Moscow City IBC	Reduction of industrial areas. Construction of 4.400.000 sq. m. of residential space, over 1.200.000 of them will be constructed in the course of the first phase: 200 thous. sq. m. in WAD, Dorogomilovo district, 400 thous. sq. m. in Filevsky park area, over 250 thous. sq. m. in NWAD, in Khoroshevo-Mnevniki, 360 thous. sq. m. in CAD, in Presnya, 22 thous. sq. m. in Khoroshevka.
Territory of Southern River Port and industrial enterprises in Pechatniki (SEAD)	Reconstruction of Southern River Port. Withdrawal of 70% of industrial enterprises (development area of 34E urban neighborhood will be 6,6 ha). Development of transport hub near Tekstilschiki metro station and urban neighborhoods 92-94.
Territory of 4 industrial zones	Project plans of the following industrial zones will be elaborated in 2009-2010: in the eastern part of Moscow (1 st ul. Bukhvostova ul., ul. Krasnobogatyrskaya, ul. Preobrazhenskaya), the industrial zone №1116 in Basmanny district, the Red Constructor industrial zone № 36 in SAD and in NEAD (Lazorevy pr., ul. Snezhnaya, pr. Serebryakova and 1 st Botanichesky pr.).
The industrial zone N 62, ul. Prof-soyuznaya / 5408 (SWAD)	Construction of multifunctional administrative complex is planned. Total area of land plot for development is 2 ha.
Territory of B housing development of Danilovsky district (SAD)	After the existing branch railway line is liquidated, it's planned to develop 25 thous. sq. m. of social housing, social and recreation center, infrastructure necessary for complex development of the district.
Industrial zone in Mitino (NWAD)	It's planned to build a multi-storey economy class residential complex measuring over 130 thous. sq. m.
Territory of Sevryanin freight yard (NEAD)	It's planned to develop approx 500 thous. sq. m. of residential space, hotels, offices, social infrastructure, underground garages
Yurlovo (NEAD)	Construction of 100 thous. sq. m. of economy class residential spaces
Demolition of Derelict Buildings Programs	
Neighborhood 109, Textilshiki (EAD)	Completion of derelict two-floor residential buildings and construction of residential complex (monolith one-section buildings) measuring over 91 thous. sq. m. with infrastructure.
Urban neighborhood 19-26, Novogireevo (EAD)	100 thous. sq. m. will be demolished, 188 thous. sq. m. of residential space will be constructed, 2 schools, 5 kindergartens, social and retail premises, exhibition and business complex, 400-room hotel.
Urban neighborhood 14, Golovinsky district (NAD)	120 thous. sq. m. will be demolished. 278 thous. sq. m. of residential space will be built, 197 thous. sq. m. of them will be given to residents of demolished buildings.
Neighborhood of districts 32-33, Prospect Vernadskogo (WAD)	140 thous. sq. m. will be demolished, 300 thous. sq. m. of residential space will be built. 225 thous. sq. m. will go to residents of demolished buildings. The neighborhood will be provided with all necessary social infrastructure.
Neighborhoods 128 B, B and neighborhood 138, Vykino-Zhulebino (SEAD)	Over 480 thous. sq. of residential space will be built. Residential buildings in neighborhoods 128 B, B and 138 will be reconstructed, residential complexes will be built in neighborhood 25 in Zhulebino and in the territory of antenna field
3-3A District, Sokolniki (EAD)	Complex reconstruction envisages depletion of all low-rise buildings (up to 9 storeys). 19 houses are expected to be demolished. Only the residential complex located in Malaya Ostroumovskaya street 1, 1/3, 1-Г, 1-А whose facades are architectural monuments of the last century will be reconstructed. It's planned to develop residential buildings, each with an individual design, kindergartens for 220 children and primary school. Land improvement is also planned. There will be approx 110 thous. sq. m. of residential space.
Territory development in zone of action of substations and power lines	
Territory of power line zones	It's planned to build residential buildings and infrastructure objects on 4 ha of a 9-ha land plot currently occupied by substations and power lines by 2025.
Aeration Field Development Project	
Lubertsy aeration fields	Total development area is approx 10 mln. sq. m. 245,6 thous. sq. m. of social housing will be built by the end of 2010
Other projects	
Peschanaya ul. 10 (NAD)	It's planned to develop a residential complex with underground garage for 320 parking places on a 1,5 ha land plot. Maximum total area will be 44,4 thous. sq. m: 32,4 thous. sq. m. – surface area, 12 thous. sq. m. – underground area.
Strogino, 14 A housing development, build. 1, 2, 3, projected passage N5433 (NWAD)	It's planned to develop a high-rise residential complex with underground garage and non-residential premises.

Source: Blackwood research

Moscow. Residential construction

Another possibility of new residential construction is to sell lease rights for land plots meant for construction of affordable housing space at the auctions held by the Russian Housing Development foundation. So far, only land plots in the regions were offered for sale but soon the Fund plans holdings auctions to sell land assets in Moscow. Thus, there will be an auction to see the right to sign a lease agreement for the three land plots in the capital of Russia: 63 Svobody Street; 10 A Khimkinsky Boulevard; 10 Khimkinsky Boule-

vard (NWAD) and 11 Radio Street in Zelenograd. Other auctions will be held to sell land plots in Moscow Region. All the land plots are put for sale for complex residential development.

It's planned to deliver 3 mln. sq. m. of residential space in Moscow in 2010, 1 mln. sq. m. of them is meant for social programs.

Moscow. Supply

Supply of residential space in Moscow rose substantially in late 2009 and remained at a high level throughout 2009 as demand, under the crisis conditions, was low. However, private landlords constantly put their properties for sale in the secondary market while the primary market suffers from lack of supply given limited new construction activity.

Still, several large-scale projects were commissioned in 2009, among the most famous ones are:

- The Italian Quarter elite project (CAD, Tverskoy sub-district) by Insigma group. The complex came into the market after its concept was reconsidered.

- New buildings of Sky Fort, a business class RC (SAD).

- Bogorodskoe, an economy class RC (EAD) with a total area of 134 thous. sq. m. commissioned by Monarkh Concern.

- Complex economy development projects by Vedis Group: the Alekseevo RC (NEAD), 65 thous. sq. m., and the Makhimovo RC (SWAD) - 80 thous. sq. m. It's worth mentioning that the apartments in these buildings were soon sold out considering fast construction paces and relatively low prices.

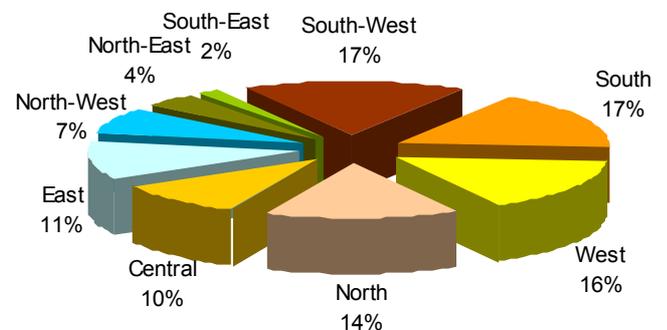
The properties with the highest liquidity in all the segments of the residential market were quickly sold, and we can call it one of the most pronounced trends of 2009. Should there be no financial crashes in the market, it may result in lack of quality residential space.

The territorial supply pattern looked as follows as of the end of 2009: SWAD was the leader in the primary market, and the lowest supply volume could be found in SEAD.

However, the large-scale program on redevelopment of industrial zones and development projects of Lubertsy aeration fields may help this district acquire the biggest amount of new supply over the next few years.

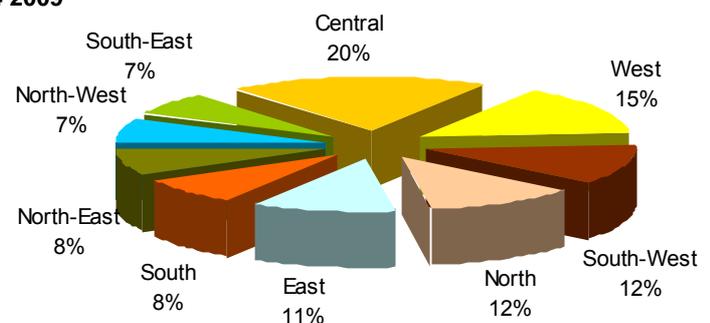
As for the secondary market, most supply was concentrated in CAD and WAD where active construction was underway over the last years. The share of other districts in the overall supply volume reached 6 -12%.

New objects distribution by Moscow districts, Q4 2009



Source: Blackwood research

Secondary market objects distribution by Moscow districts, Q4 2009



Source: Blackwood research

Moscow. Demand

2009 will enter the history of the Moscow residential real estate market as the year when buyers dominated the market as supply substantially exceeded active demand. The maximum gap between these two indexes was formed in winter 2009 when, under the impact of the crisis, would-be buyers experienced financial difficulties and the price situation in the market as well as future prospects of the national economy looked unclear.

There was little demand for properties in the primary market as most buyers focused on the more secure secondary segment. Up to 90% of all the transactions were alternative.

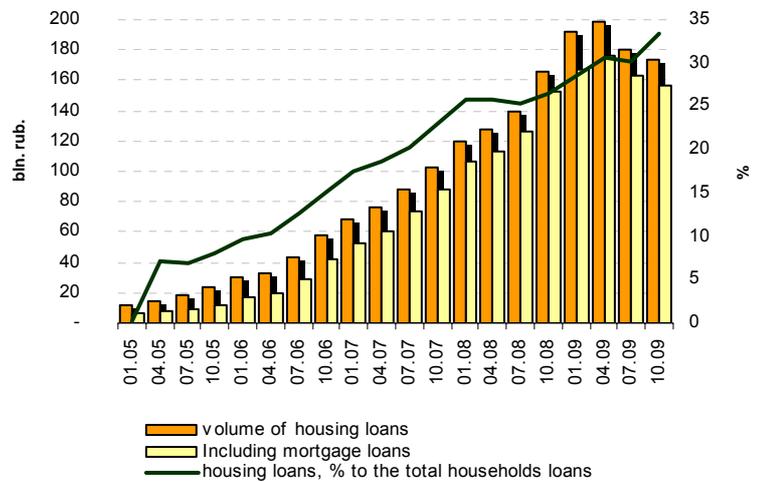
Starting from spring 2009, the situation started to change: following the price decline, the buyers came back to the market. They were most interested in the buildings with good construction dynamics and looked for apartments with the best price-quality ratio. For instance, Vedis Group enjoyed success in 2009 as, despite the crisis, it managed to sell exceptionally fast its properties: the Alekseevo RC including 768 apartments was commissioned in July 2009 and by December 2009 all the apartments were sold. The reason of such record sales is that the company occupied a sought-after price niche of 80-90 thous. rubles per sq. m. and maintained high construction paces.

By fall 2009, the situation in the residential sector stabilized. According to the Federal Registration Service in Moscow, in October 2009, the number of purchase and sale transactions in the secondary market rose 25% versus September and exceeded three times the extremely poor February results. Still, the indexes of 2009 are almost the same as in 2008.

A challenging situation in the mortgage lending segment impedes the market recovery. The mortgage market was hit most hard by the crisis as banks had fewer possibilities to give loans and consumer demand for mortgage loans plummeted. Comparing the mortgage lending data of October 2008 and October 2009, we'll get deplorable results:

- new mortgage loans dropped 4,3 times,
- the mortgage market growth falls to zero (mortgage indebtedness amounted to 3% in the period between October

Credits to individuals, Moscow



Source: Central Bank of RF

2008 and November 2009, while prior to the crisis, this index used to grow 10-20% per quarter).

In February 2009, when the crisis reached its peak, only 181 mortgage loans were given in Moscow. Then, as the market began to stabilize the mortgage lending in the Russian capital also started to grow and over 795 loans were issued in October 2009. Still, this index is twice as low as the level reached prior to the crisis.

The mortgage sector may show growth only if the residential real estate market as well as the national economy reach relative stability, the social and economic characteristics of the population improve, lending terms become more liberal and rental rates are reduced.

The government views the rental rate reduction as one of the keys to the market recovery and can consider decreasing refinancing rates and subsidize mortgage rates. In the mid-term perspective, the mortgage cost will hardly be lower than prior to the crisis (11-12% in rubles) but even a small reduction can be enough to convert latent demand into actual sales provided the economic situation remains stable.

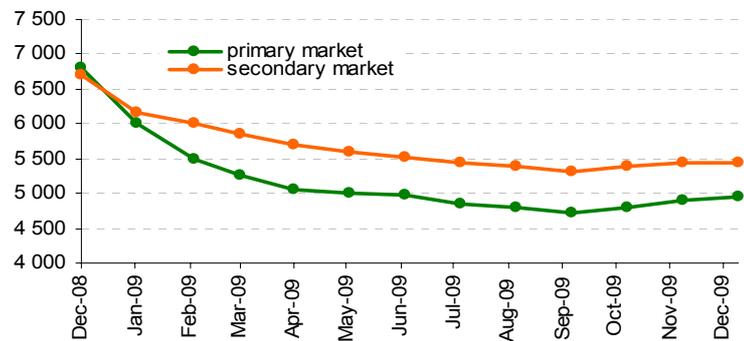
Moscow. Prices

Throughout 2009, the price dynamics in Moscow showed different trends. The prices began to decline in late 2008 and continued falling in 2009. The maximum decline in the primary and secondary markets took place early last year (19% and 10% respectively for January-February). Developers and private landlords were forced to reduce the prices directly given decreasing sales. Besides, the developers, under the heavy burden of credit, cut the prices even further. Besides, the average price indexes were affected by the growing dollar rate. However, by the end of H1 2009, the market became more active and the deferred demand became actual sales. The price decline rates changed (3-5%), the prices stabilized by summer 2009 (1-2% decline per month). Starting from September, the prices began to rise 0,5-2% per month.

As a result, the average prices in the primary market of Moscow amounted to \$4 950 per sq. m. (annual price decline - 27,2%) and to \$5 450 per sq. m. in the secondary market (annual price decline - 18,8%).

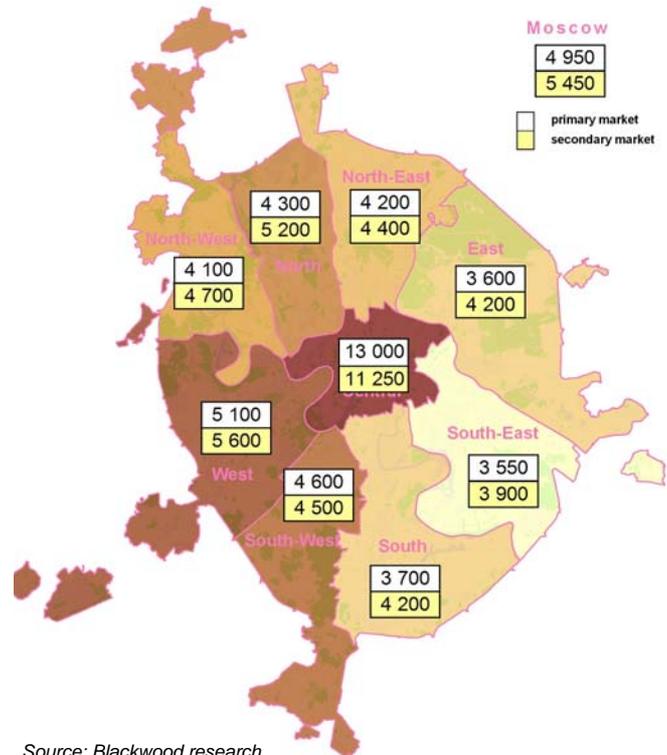
CAD was traditionally the most expensive district in Moscow (\$13 000 and \$11 250 per sq. m. in the primary and secondary market respectively). The second most expensive district was WAD (\$5 100 и \$5 600 per sq. m.). Relatively low prices could be found in SEAD, EAD and SAD. The prices in the primary market reached \$3 550 - 3 700 per sq. m. and \$3 900 - 4 200 per sq. m. in the secondary market.

Prices dynamics, Moscow, \$ per sq. m



Source: Blackwood research

Average prices by Moscow Districts, \$ per sq. m, December 2009



Source: Blackwood research

Moscow. Forecast

The residential market reached stability and shows the first signs of recovery, that's why we believe that it will continue to grow provided there're no financial clashes in the nearest future. It's too early to speak about any serious price growth. We don't expect any new supply to come into the market any time soon as, under the impact of the crisis, many developers either put their projects on hold or abandoned them altogether. The best in class properties will be sold out fast and it may lead to changes in the supply pattern

and price dynamics. Since the properties with good price and quality characteristics may be in short supply, their prices are likely to grow at a higher pace. However, as the share of these properties in the overall market volume will decrease, the average market price index will grow much more slowly. All this will result in a 10-15% growth, which is relatively small in comparison with the period prior to the crisis, and the main home price growth is expected in H2 2010.

Moscow. Sale. Supply

By the end of 2009, approx 203 thous. sq. m. of residential space, or 1211 apartments, were available in the elite primary market. Active sales were underway in 36 residential complexes. Throughout 2009, the elite real estate market activity remained low, though several new residential complexes were commissioned: Barkly Plaza, Italian Quarter, Znamenka Residence, the residential complexes located at 21-23 Petrovsky Boulevard and at 12-24 Pechatnikov Lane.

The implementation of the Golden Island project, one of the most famous elite projects in the city center, will be postponed for 3-4 years as well as the implementation of the Five Capitals residential project located at 8-14 B. Ordynka.

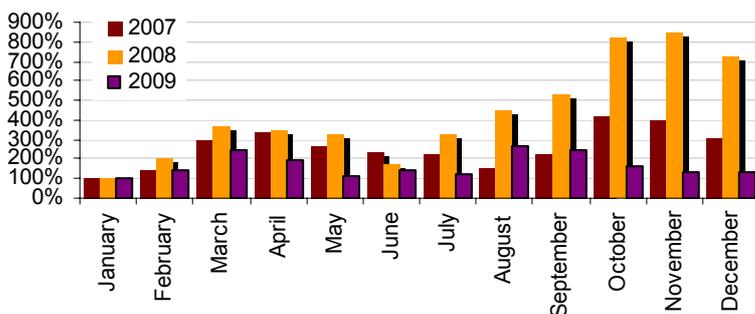
As for new projects, Mirax Group and Leonid Gandelman announced their plans to develop the Moscow Center of Small Business and Crafts at 1/9/6, build. 8, 9, 10-15 Kremlevskaya embankment. This project envisages depletion of old buildings and construction of offices and apartments, with a total area of 19 thous. sq. m. Besides, an elite residential apartment block will be constructed at 7 Prechistenskaya embankment.

Khamovniki district still ranks first in terms of elite supply (50% of all the elite residential space).

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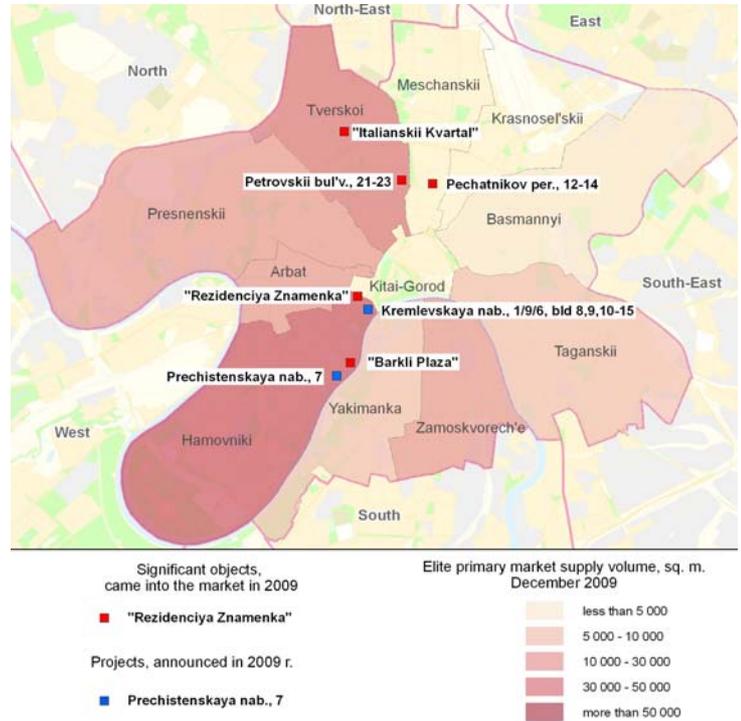
As far as the supply pattern in terms of budgets is concerned, the share of apartments worth \$1-\$2 million was the biggest, the smallest one was represented by apartments whose price doesn't exceed \$0,5 mln. The crisis affected directly the most expensive apartments (over \$5 mln.). Their share is declining gradually: it was 8% in Q4 2009, while it amounted to 20% prior to the crisis.

Supply volume dynamics in secondary market*, %



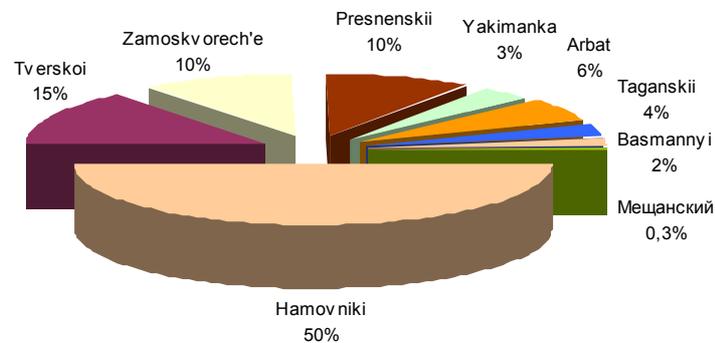
*- according to the Company's database; January - 100%
Source: Blackwood research

Elite objects came into the market in 2009



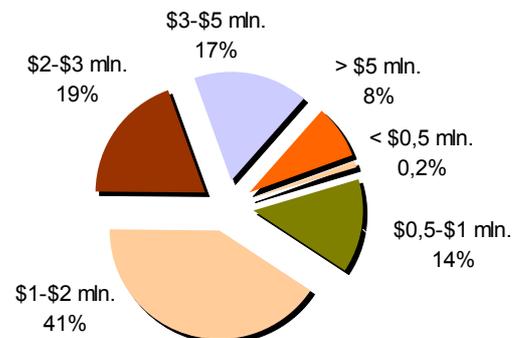
Source: Blackwood research

New buildings supply by Central District, Q4 2009, %



Source: Blackwood research

Supply by terms of budget, \$ per apartment, Q4 2009, %



Source: Blackwood research

Moscow. Sale. Demand

In early 2009, the buyer activity was quite low, however, demand began to grow again in H2 2009.

The activity stepped up due to the traditional seasonality factor and the influence of deterred demand (it was first observed in spring 2009). The main factor attracting buyers remained distressed prices. In September-October, the number of incoming requests exceeded January's indexes more than two times. Besides, the summer period in 2009 was also rather active and July's indexes were 20-30% higher than January's.

Currently, we can speak about a gradual recovery of investment demand. The buyers who were initially attracted by the discounted prices considered an option of buying an apartment in the primary market, while throughout most of 2009, apartments in completed buildings enjoyed more popularity.

However, it's still too early to speak about the global trend: buyers choose apartments in new residential buildings very carefully. Important factors remain: degree of completion, adherence to the construction schedule, developer's credibility, discounts or special terms. As examples of the projects successfully sold in the elite residential market despite the crisis, we can cite the Four Suns residential complex and the complex at 6 Granatny Lane.

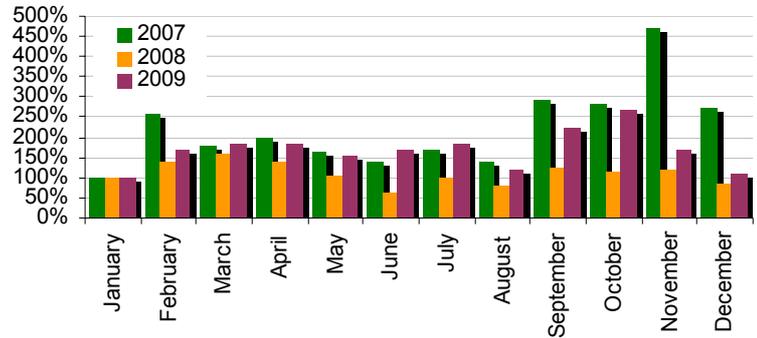
The demand pattern in terms of budgets looked as follows in Q4 2009: apartments worth up to \$2 million enjoyed the highest popularity (70% of demand) while prior the crisis, their share was not more than 50%. The number of incoming requests for the priciest apartments (over \$5 mln) grew from 3% to 6% in H2 which shows that the buyer activity in different segments of the elite residential market is intensifying.

Moscow. Sale. Prices

As of the end of 2009, the average prices for elite residential properties in Moscow reached \$17.000 per sq. m. in the primary market and \$22.440 per sq. m. in the secondary market. The average prices in the elite primary market declined 15%, while the average home price decline in the market was 27,2%.

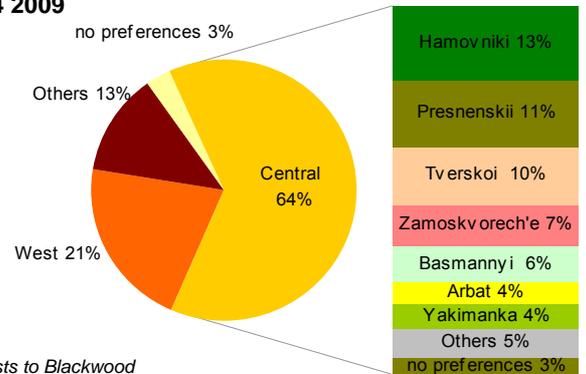
In the end of 2009, the highest average prices in the primary market, \$18 500 per sq. m., could be found in Yaki-

Demand volume dynamics*, %



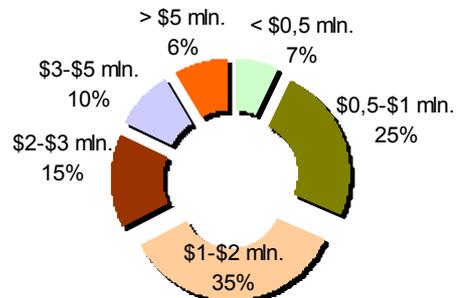
* - requests to Blackwood, January - 100%

Demand structure by Moscow districts and inside the Central District, Q4 2009



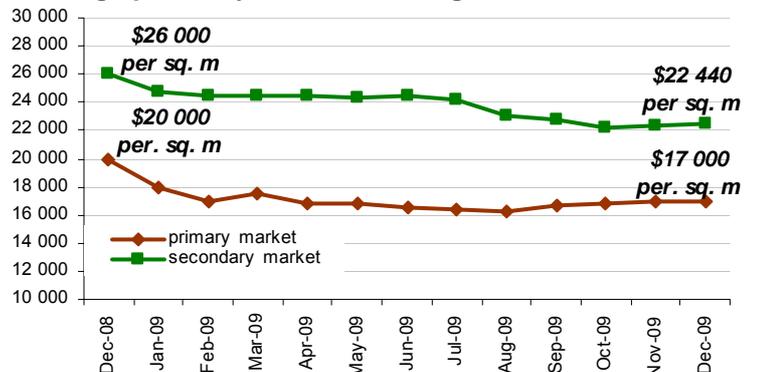
Source: requests to Blackwood

Dynamics of demand in terms of budget



Source: requests to Blackwood

Average prices dynamics, elite segment



Source: Blackwood research

Moscow. Sale. Prices

manka district. As for the secondary market, the highest prices amounted to \$25.900 per sq. m. (Presnensky district). The home prices declined most (25-50%) in previously over-estimated and less popular districts, such as Zamoskvorechie, Tagansky, Meschansky.

In Q4 2009, the elite residential market showed stable growth (0,3-1,8% per month, 0,5% in the secondary market). Most sellers had already fixed their prices and were reluctant to reduce them any further considering additional discounts only on a case-by-case basis.

Most expensive flats in Moscow, December 2009

Address	District	Unit area, sq. m	Unit price, \$	Price, \$ per sq. m
Primary market				
1-st Smolenskii per., 19	Central/Arbat	26 577 671	715	37 172
Granatnyi per., 6	Central/Presnenskii	21 600 097	507,7	42 545
Korobeinikov per., 1/2 «Ostozhenka Park Palace»	Central/Khamovniki-Ostozhenka	15 981 795	389,8	41 000
Secondary market				
Molochnyi per., 7	Central/Khamovniki-Ostozhenka	32 934 613	517,5	63 641
Korobeinikov per., 1	Central/Khamovniki-Ostozhenka	21 000 188	682,6	30 765
Povarskaya ul., 20	Central/Arbat	20 799 888	411	50 608

Source: Blackwood research

Most expensive new buildings in Moscow, December 2009

Address	District	Price, \$ per sq. m
Granatnyi per., 6	Central/Presnenskii	up to 43 800
Prechistenskaya nab., 17-19 «Barkli Plaza»	Central/Khamovniki-Ostozhenka	up to 43 200
Korobeinikov per., 1	Central/Khamovniki-Ostozhenka	up to 41 000
Sytinskii tup., 3A	Central/Presnenskii	up to 37 400
1-st Smolenskii per., 19	Central/Arbat	up to 37 200

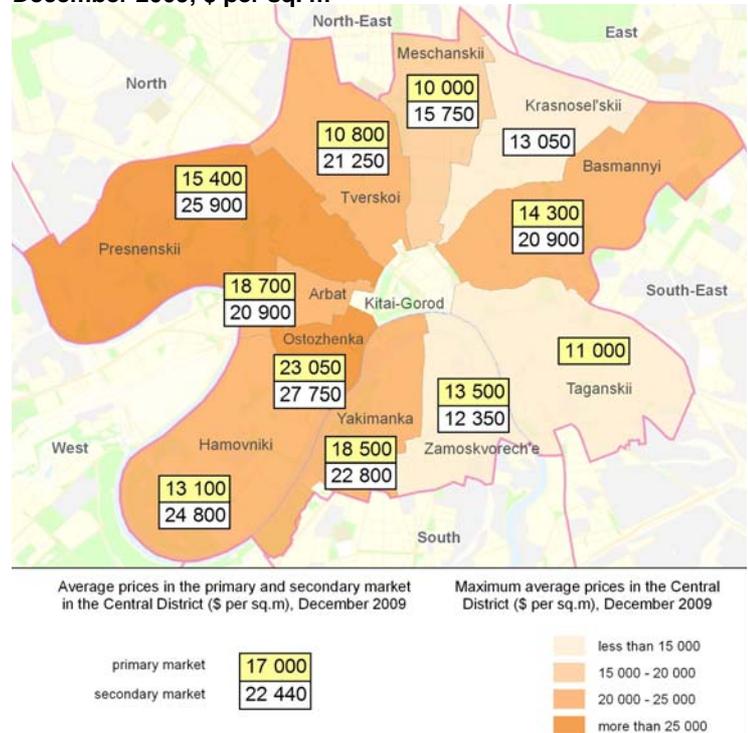
Source: Blackwood research

Moscow. Sale. Forecast

As of the end of the year, the elite residential market reached stability. Home prices bottomed out and have started recovering.

Should there be no serious changes in the financial market in 2010, we can expect a 10-15% price growth, which is quite low compared to the period prior to the crisis. The best in class, completed properties will see the highest demand, and their prices will grow at exceptionally high paces.

Price distribution in Central Administrative District, December 2009, \$ per sq. m



Source: Blackwood research

We should also add that the elite residential segment proved to be the most stable throughout the crisis periods (1998 and 2008). However, the properties which lost most in value have the highest growth potential after the crisis. Therefore, possibly, the elite segment will not be the fastest growing in 2010 but it will remain the safest one from the investment point of view.

Moscow. Rent. Supply

In 2009, the elite rental market showed relative stability despite the crisis influence.

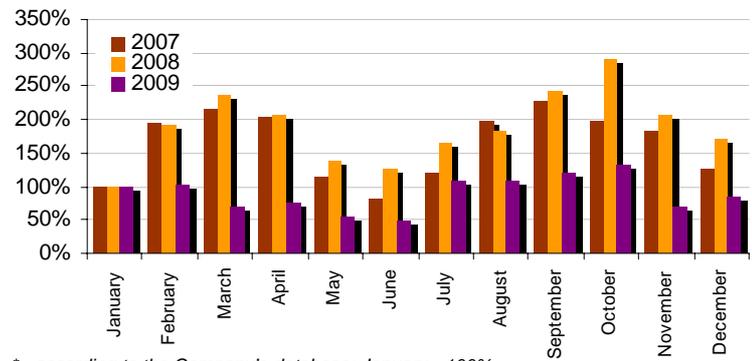
In the end of 2008, the supply available in the elite rental market increased sharply, and as a result, the leaseholder activity intensified and remained high throughout the first months of 2009. Further market development was more predictable and more dependent upon the seasonal factors. In Q2 2009, prior to the summer season, the amount of new supply decreased while in Q3 2009, we saw the second traditional peak of the leaseholder activity as the period of summer vacations when many people rent countryside cottages drew to a close. By the end of the year, the amount of supply declined. It's worth mentioning that many owners of apartments came into the rental market seeing home sale prices decline and expecting to obtain stable monthly income without losing their assets. Evidently, after the purchase and sale market began to recover, this trend weakened.

The territorial supply pattern throughout 2009 remained virtually unchanged: most high-quality apartments were offered for lease in CAD. Many elite apartments were also offered in the western part of the city: WAD, SWAD, NWAD. In CAD, the main supply volume was concentrated in Arbat, Tverskoy and Khamovniki districts (mainly, the up-market zone of Ostozhenka Street), their overall share amounted to more than 50%.

As far as rental budgets are concerned, the supply structure in 2009 underwent considerable changes. Considering the disbalance of supply and demand, many landlords reduced the prices but the final transaction budget was more affected by discounts. Usually, the discounts were provided in the course of negotiations. Maximum discounts, which in some cases reach up to 30-40%, were offered in early 2009 while in the second half of the year, the leaseholders were less willing to discount the prices seeing the first signs of market recovery.

Relatively cheap and affordable apartments were quickly leased out.

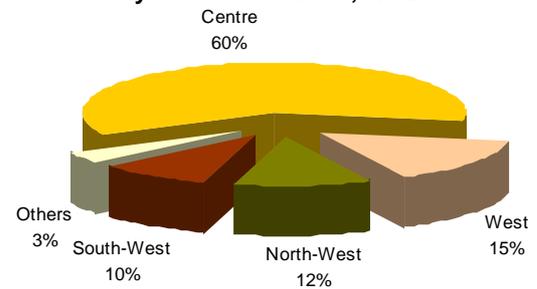
Supply volume dynamics*



* - according to the Company's database; January - 100%

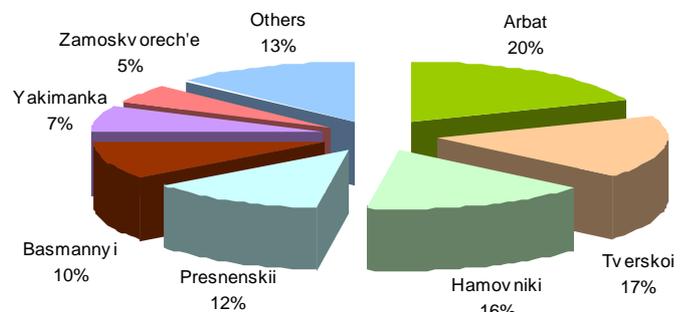
Source: Blackwood research

Supply structure by Moscow districts, Q4 2009



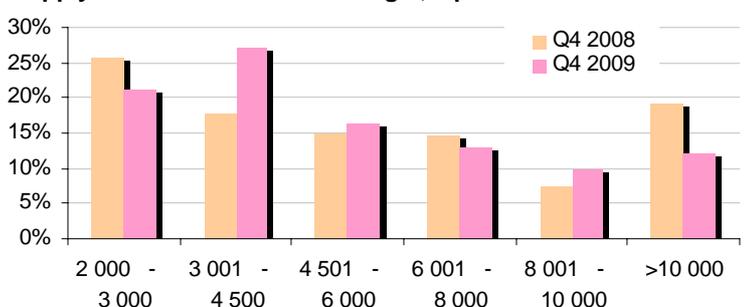
Source: Blackwood research

Supply structure inside the Central District, Q4 2009



Source: Blackwood research

Supply structure in terms of budget, \$ per month



Source: Blackwood research

Moscow. Rent. Demand

Demand in the elite rental segment remained rather high throughout 2009, and it was the stable demand which help the rental market maintain its position. Despite the crisis influence, the beginning of the year was quite busy in comparison with previous years.

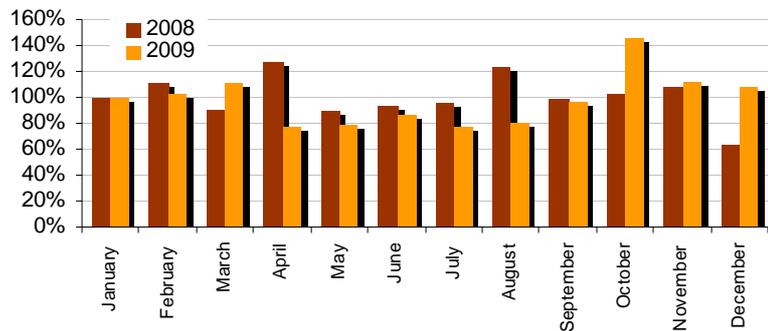
Demand was maintained mainly thanks to the tenants who had decided to rent an apartment in 2008, that is, thanks to the deterred demand. Tenant activity slowed down by the end of Q2 2009 as demand shifted into the countryside segment and the vacation season began. Unlike previous years, there was no upswing in the rental market activity in 2009: earlier, demand had been maintained at a high level thanks to Russian and foreign tenants: top managers, business men and employees of big companies. Currently, even considering relative stability in the global markets, this consumer group is not active.

All in all, the demand volume remained high, and its pattern didn't see any considerable changes. As rental rates went down tenants tended to be more sophisticated, and their requirements to all the characteristics of apartments were quite high. The main factors were: prime location and surrounding environment, building class and quality, construction date, security, adjacent territory and parking lot, fit-out. In most cases, the tenant and the leaseholder negotiated, and discounts and special terms were among the key decisive factors, even in the end of the year, when the leaseholders were less willing to reduce the rates.

As far as the demand geography in 2009 is concerned, demand was still concentrated in CAD (mainly, Khamovniki, Arbat, Tverskoy districts). Outside CAD, the western districts, SWAD, WAD, and NWAD, were the most sought after by tenants.

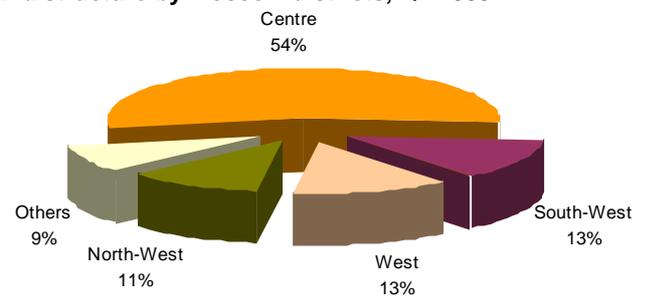
The demand pattern in terms of budgets underwent the most serious changes: the share of requests for the cheapest apartments (up to \$3.000 per month) increased considerably while the share of requests for more expensive apartments declined. If a year ago, the request structure was relatively proportional across all the segments, today we see that people cut their budgets and expect to get discounts.

Demand volume dynamics*, %



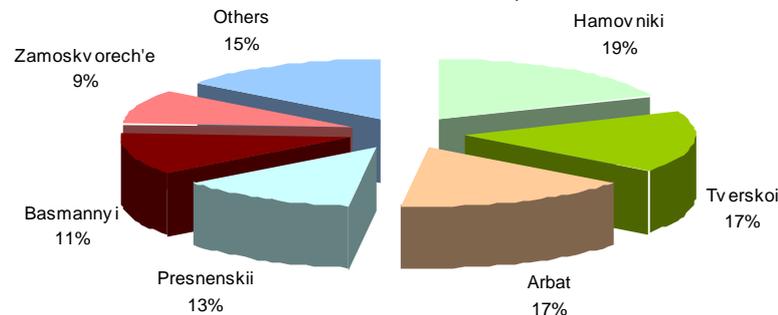
* - requests to Blackwood, January - 100%

Demand structure by Moscow districts, Q4 2009



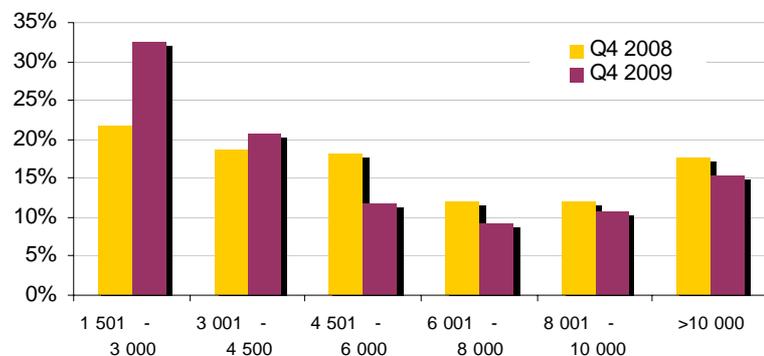
Source: requests to Blackwood

Demand structure inside the Central District, Q4 2009



Source: requests to Blackwood

Dynamics of demand in terms of budget, \$ per month



Source: requests to Blackwood

Moscow. Rent. Rates

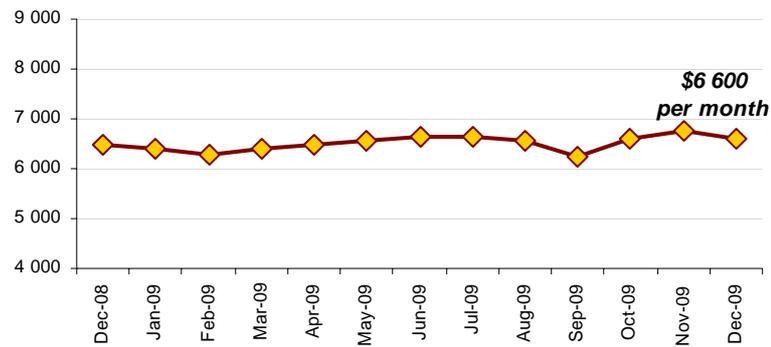
The dynamics of rental rates in the elite residential market of Moscow reflected the market trends. If early last year the rental rates continued falling, the market showed relative stability and gradual recovery in Q2 and Q3 2009. At the same time, it cannot be said that these growth trends are very pronounced: after periods of growth, the rental rates declined again. The average rental rates were influenced by a number of factors: as affordable and marketable apartments were quickly leased and the economy showed the first signs of recovery, the rental rates began to rise. On the other hand, in order to lease their apartments as soon as possible, many property owners offered them at discounted prices. Besides, the price dynamics was affected by seasonal fluctuations of the supply and demand balance.

So, by the end of 2009, the average rental rates in the elite segment amounted to \$6 600 per month per apartment. The rental rates of high-grade apartments grew 1,5% over the whole year.

As of the end of 2009, the highest rental rates could be found in Arbat district (\$8,050 per month). The lowest rental rates, again, were observed in Tagansky district the average rate being \$3 500 per month. By the end of the year, maximum rental rates remain \$50 000 per apartment. That was the asking rent of a 400 sq. m. apartment in a high-end building in Chistye Prudy area. Traditionally, WAD was the second most expensive district of Moscow.

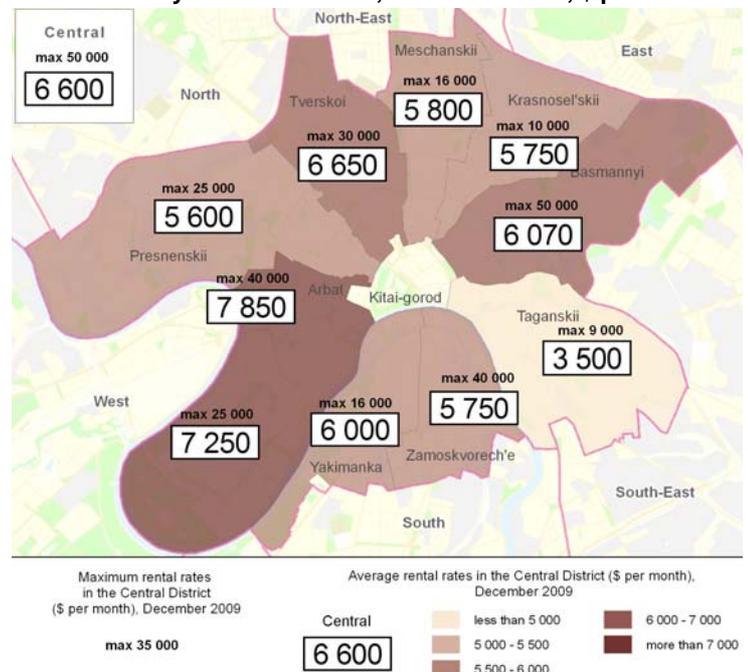
We should bear in mind, however, that many landlords failed to lease their apartments at such elevated prices. The maximum level of real transactions was lower, approx \$20 000-\$30 000 per month.

Average prices dynamics on the rent market



Source: Blackwood research

Rental rates by Central districts, December 2009, \$ per month



Source: Blackwood research

Rental rates for the most popular Moscow districts outside Central Administrative District, December 2009

District	Price, \$ per month
West	up to 25 000
South-West	up to 20 000
North-West	up to 18 000

Source: Blackwood research

Prices dynamics on the rent market by rooms number

Rooms	Price, Dec. 09, \$ per month	Average unit area, sq. m	Price, Dec. 08, \$ per month	Change over year
1	3 000	51	2 500	20%
2	3 720	71	3 600	3%
3	5 460	105	5 300	3%
4	8 250	148	9 450	-13%
5 and more	12 060	213	13 000	-7%

Source: Blackwood research

The most expensive flats for rate in Moscow, December 2009

Address	District	Unit area, sq. m	Price, \$ per month
Sretenskiy bul'v.	Central/Basmannyi	400	50 000
Povarskaya ul.	Central/Arbat	500	40 000
M. Bronnaya	Central/Presnenskiy	360	30 000
Krivoarbat'skii per.	Central/Arbat	214	27 700
Arbat ul.	Central/Arbat	249	26 000

Source: Blackwood research

Moscow region. Cottages for rent

As in previous years, the elite countryside rental market proved to be highly dependant upon seasonal factors in 2009. In early 2009, the new supply volume increased fast thanks to the market players who looked to lease their cottages for summer months and thanks to those landlords who came to the rental segment from the sale segment under the influence of the crisis. The second peak of activity was observed in August-September as new cottages came into the market, the so-called summer cottages became available again and lease agreements were renegotiated.

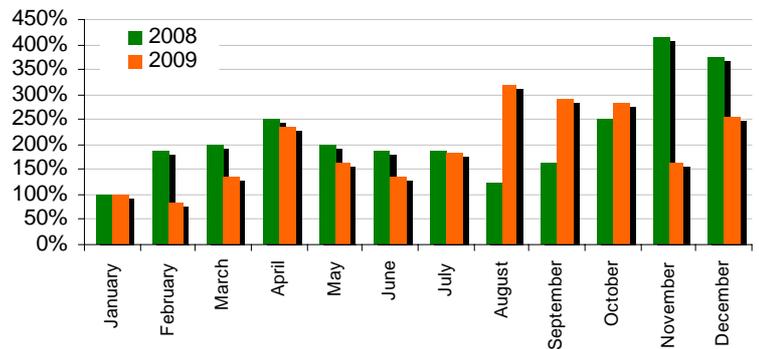
Demand in the countryside rental market was quite stable reaching its peak in March-April. At the same time, we cannot say that the demand was high. The demand from foreign and corporate tenants that represented a big separate share in the demand pattern decreased substantially. Better lease terms and newly available space attracted Russian tenants and they could finally rent cottages in the settlements in which previously they had to wait for 1,5-2 years to get the required cottage (Rosinka, Serebryany Bor, Pokrovskie Kholmy). However, even if the demand from the Russian tenants increased, supply still exceeded demand. It's especially noteworthy as in previous years, this segment suffered from a high lack of supply.

As well as in Moscow, requirements in terms of quality and location remained high, and the tenants continued to search for better homes for less money thus forcing the landlords to put their properties for lease at discounted prices.

Throughout 2009, the rental rates went down. However, by the end of the year the rates stopped falling and we can say that this segment, as well as other real estate market segments, is beginning to stabilize. As a result, the average rental rates of high-grade cottages reached \$11,550 per month in September; the annual price reduction was over 40%.

However, despite this major price reduction, maximum rental rates remained quite high: a cottage in Landshaft settlement (the Rublevo-Uspenskoe highway) measuring 1.000 sq. m. on a 42 sotka land plot, was offered for \$100 000 per month.

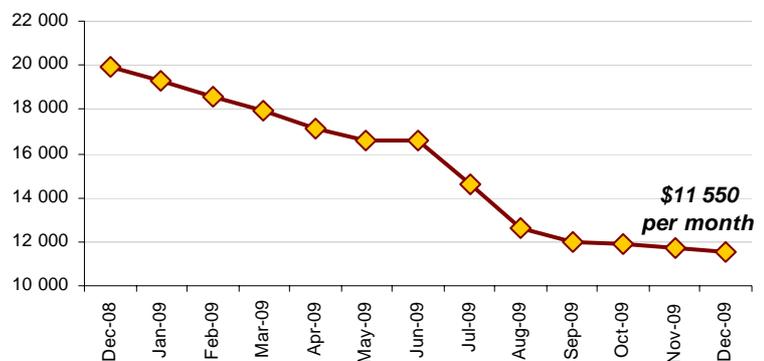
Dynamics of cottages supply volume*



* - houses entered in the Company's database; January - 100%

Source: Blackwood research

Average prices dynamics on the cottages for rent



Source: Blackwood research

Rental rates for cottages by directions, December 2009, \$ per month

Highway/Direction	Rental rates
Rublevo-Uspenskoe	4 000-100 000
Novorizhskoe	3 000-35 000
Kaluzhskoe, Kievskoe	3 000-35 000
Dmitrovskoe	2 500-15 000
Pyatnitskoe	3 000-18 000
Moscow	up to 30 000

Source: Blackwood research

The most expensive cottages for rate in Moscow region, December 2009

Address	District	Unit area	Price, per month
Landshaft	Rublevo-Uspenskoe, 9 km	1 000 sq. m, 42 sotkas	\$100 000
Diplomat	Rublevo-Uspenskoe, 16 km	1 500 sq. m, 78 sotkas	\$70 000
Kotton Vei	Rublevo-Uspenskoe, 24 km	1 000 sq. m, 30 sotkas	\$60 000
Razdory	Rublevo-Uspenskoe, 6 km	600 sq. m, 15 sotkas	\$55 000
Ekaterinovka	Moscow, Krylatskoe	1 075 sq. m, 20 sotkas	\$30 000

Source: Blackwood research

Moscow. Rent. Forecast

All in all, as we expected, the elite rental market was affected by the crisis but its fundamentals remain firm: there were still a lot of people who would like to rent a high end apartment in Moscow, and the requirements of such potential tenants were high. That means that the elite rental market proved to be a stable segment.

It seems clear that the gradual recovery of the real estate market which began in late 2009 depends upon the overall economic revival. It will allow the rental market to strengthen its position and will result in the rental rate growth.

Besides, the expected market deficit will also contribute to the growth of price indicators: first of all, the most affordable apartments will be quickly leased. Secondly, the elite residential real estate market will suffer from low supply as construction paces are slowing down, which will also affect the elite rental market with a certain time lag. Should there be no financial disasters, the demand will gradually recover, among other things, thanks to corporate tenants representing a major target audience of this segment.

As we expected, the elite countryside market underwent more serious price reduction as many prospective tenants cut their budgets and other tenants abandoned the idea of renting a countryside cottage altogether.

Since the market began to stabilize in late 2009, we expect the market to recover gradually in 2010. The highest growth paces are traditionally anticipated prior to the summer season.

At the same time, we believe that the countryside rental market recovery will be slower than in the city as a countryside cottage is not a prime-necessity item. Besides, for the foreign companies whose demand for lease of cottages and townhouses slumped it will take some time to make a decision to resume their business activity.

Another factor which may directly affect the rental rate growth is a lack of supply of properties close to completion.

Organized countryside settlements. Supply.

The overall supply structure of the countryside residential real estate market of Moscow Region underwent serious changes in 2009 as a huge number of economy class projects offering land plots without building contracts, and sometimes even without engineering utilities, came into the market.

Due to the crisis which hit the Russian economy in autumn 2008, the delivery rates of new projects in 2009 shrank 25% versus 2008.

As a result, 60 settlements were commissioned in the countryside residential real estate market of Moscow Region, 88% of these settlements fall into the economy category. 9% of the projects delivered in 2009 are business class and only 3% of the projects belong to the elite segment.

The product of the year were land plots without building contracts whose share in the overall new supply volume amounted to 78%. Most such projects were commissioned in Q2 2009.

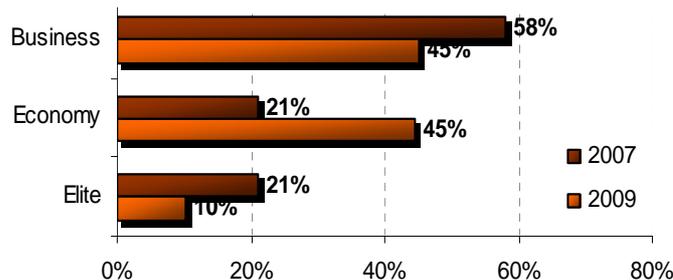
Most projects offering land plots without building contracts have the following characteristics:

- Distance from MKAD – from 51 to 80 km (34% of the projects);
- Direction – the Simferopolskoe and Novorizhskoe highways (23% and 17% of the projects respectively);
- The average area of land plots – 10 sotkas.

As far as the overall supply pattern in terms of directions is concerned, there're approx 360 settlements available in the primary market of Moscow Region. 45% of them are economy class, 45% - business class, 10% - elite class.

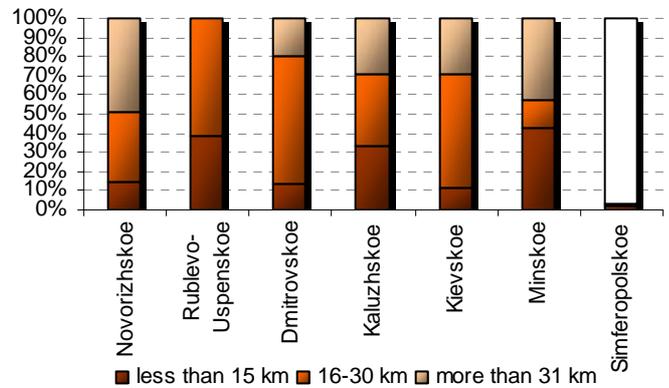
45% of the settlements in Moscow Region are located within 30 km of MKAD, 35% of the settlements – within 31-60 km, 20% of the settlements - farther than 60 km from MKAD, 95% of them fall into the economy category.

The supply structure changes, 2007 - 2009, %



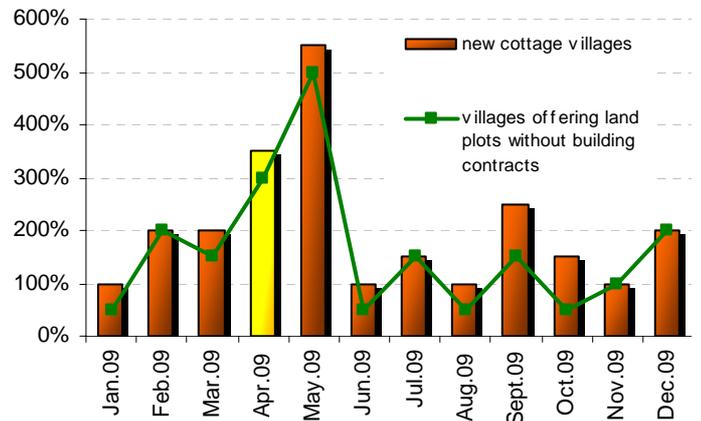
Source: Blackwood research

Primary supply of settlements by the main directions, by distance from MKAD, 2009



Source: Blackwood research

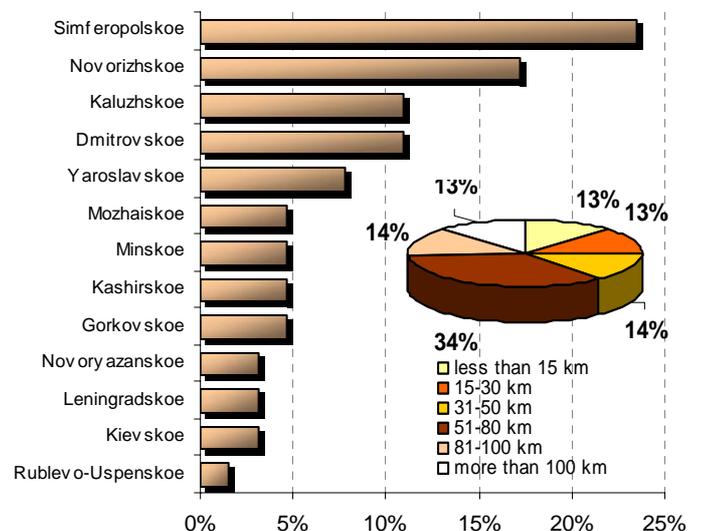
Dynamics of new supply volume in the countryside real estate market, 2009, %*



* January 2009 - 100%

Source: Blackwood research

The structure of new supply, by directions, by distance from MKAD, 2009, %



Source: Blackwood research

Organized countryside settlements. Demand

In early 2009, demand for countryside properties was at its lowest level but it recovered in spring-summer 2009. In fall 2009, the countryside market saw an upswing as demand properties stable. In late 2010, the buyer activity was less heavy due to the upcoming holiday period and seasonal factors.

After the crisis hit the countryside market, the demand pattern in terms of direction, distance from Moscow, cottage size and purchasing budget experienced considerable changes.

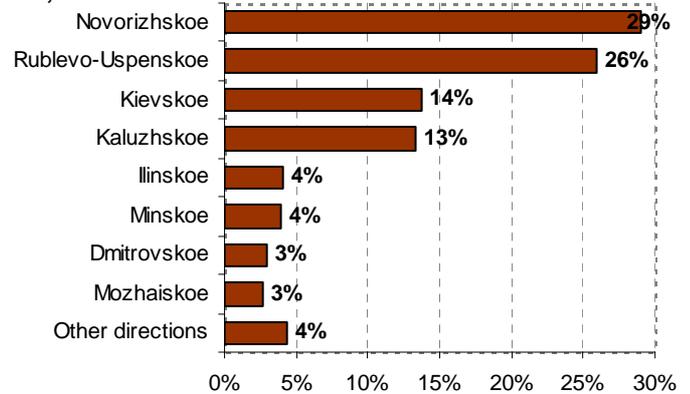
The Novorizhskoe and Rublevo-Uspenskoe highways were the most popular among elite countryside property buyers, their shares in the overall demand volume being 29% and 26% respectively, since most projects close to completion were concentrated in this area. Besides, asking prices were substantially reduced and could meet price expectations of potential buyers.

In 2009, people were more interested in settlements located at a close distance from Moscow: if prior to the crisis, the prospective elite countryside property buyers were willing to purchase homes within 30 km of Moscow, after the crisis, they started looking for homes in settlements located within 20 km of MKAD (60% of incoming requests).

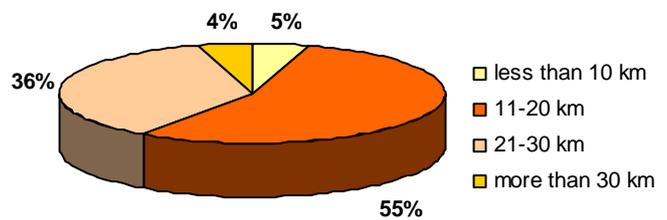
Adjacent land plots measuring 15-30 sotkas (approx 70% of incoming requests) and cottages measuring 300-400 sq. m. (approx 60% of incoming requests) were the most sought after by the prospective elite countryside property buyers. Prior to the crisis, they could consider bigger cottages and land plots: 30 - 50 sotkas, 400 - 700 sq. m.

In 2009, properties below \$2 mln. saw the highest demand (70% of all the incoming requests). The analysis of the incoming requests for purchase of a high-grade countryside property shows that the price expectation level decreased 2 times during the crisis period and therefore, most prospective buyers sought to buy a countryside home with a 50% discount.

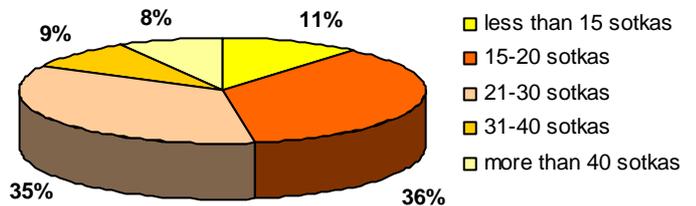
Rating of the directions by demand for countryside elite real estate, 2009



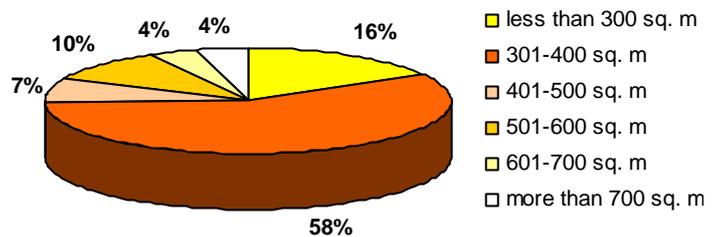
The client's preferences by distance from MKAD, % of the total number of requests, 2009



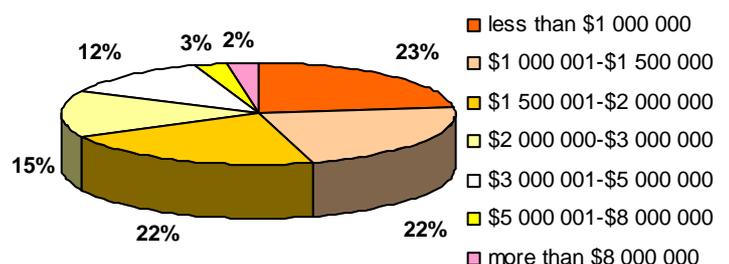
The most popular land plot area, % of the total number of requests, 2009



The most popular cottage area, % of the total number of requests, 2009



The client's budget, % of the total number requests, 2009



Source: requests to Blackwood 2009

Organized countryside settlements. Prices

The countryside real estate market of Moscow Region saw a considerable price reduction on 2009. The general price reduction of high-end countryside homes was approx 30%, economy class homes – approx 20%.

Prior to the crisis, in fall 2008, the market was at its peak, the average price per 1 sq. m. amounted to almost \$7 000 in Q2 2008.

Russia felt the first impact of the crisis in September 2008 but developers were in no hurry to reduce their price. In Q4 2008, the market came to a standstill and a wait-and-see attitude was adopted by many market players.

The developers' behavior started to change only in Q1 2009 as they started to apply an individual approach to each buyer, offer installment plans and serious discounts which in some cases reached up to 50-60%. However, most developers were reluctant to officially decrease property prices in price lists expecting demand recovery in Q2 2009.

It should be said that the market did see an upswing in activity in spring 2009, the main reasons being deferred demand realization, price reduction, PR events that helped attract prospective buyers. However, despite some improvement of the situation, the average price per 1 sq. m. continued to decline.

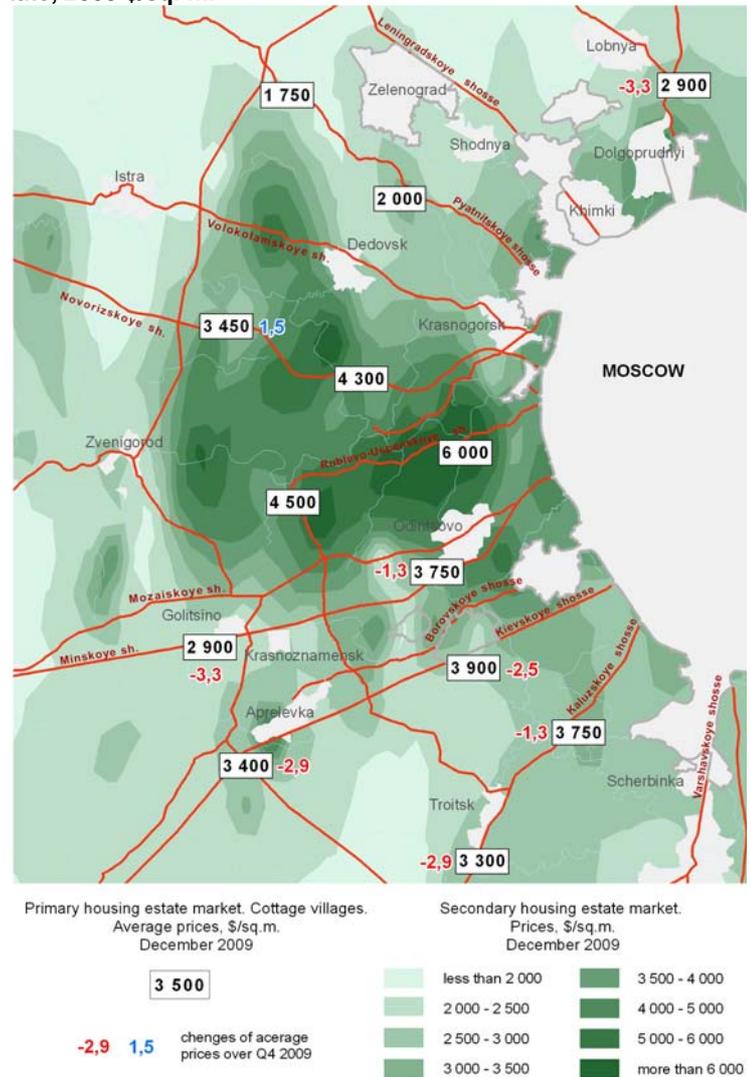
In summer 2009, many developers changed their pricing policy officially decreasing the prices indicated in the price lists. Besides, they began to offer discounts more openly. Such information was published on websites of development companies and in the mass media.

In fall 2009, the prices reached a certain balance as most developers established their prices. Still, we should bear in mind that the officially reduced price was discounted again, but not to such an extent as in summer 2009. The average discounts reached 10-15% in Q3 2009. Besides, prices in the countryside market began to rise for the first time in Q3 2009, usually, in cases when the property was close to completion.

Prior to the New Year holiday season, developers held numerous PR events, offered gifts and additional discounts to their clients.

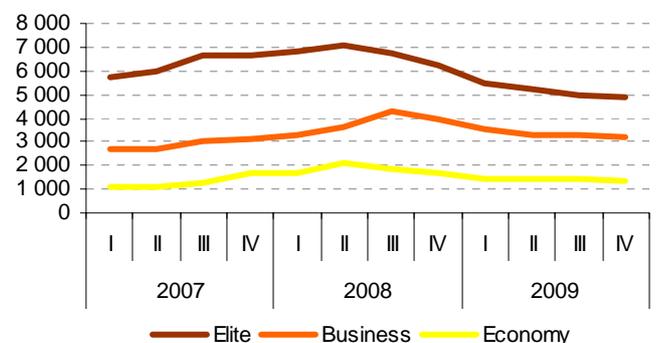
All in all, the price per 1 sq. m. (taking into account the land price) reached \$4 900 in elite cottage settlements, \$3 200 in business class settlements and \$1 380 in economy class segments.

Average prices of high budget countryside residential real estate, 2009 \$/sq. m.



Source: Blackwood research

Price dynamics of countryside residential real estate, Q1 2007 – Q4 2009, \$/ sq. m.



Source: Blackwood research

Wholesale land market

After the crisis hit the market in fall 2008 the number of land plots* put for open sale grew substantially as landlords and developers needed free cash.

In 2009 the supply volume of wholesale land plots of Moscow Region increased since many land assets meant for implementation of mega projects prior to the crisis came into the market.

Besides, many land assets changed ownership as the plots in Moscow Region previously owned by development companies were handed to major banks in the course of the debt restructuring process.

In 2009 prices in the wholesale land market of Moscow Region declined approx 28% on average. The land plots located in the vicinity of Moscow underwent the most serious price correction as they had been most overestimated prior to the crisis.

As of the end of 2009, most wholesale land plots could be found along the Simferopolskoe and Novorizhskoe highways. If we divide the wholesale land plots into two categories: small (up to 50 ha) and big (more than 50 ha), we'll see that most big land plots are located along these two highways, that's why a huge number of new projects offering land plots without building contracts were delivered here in 2009.

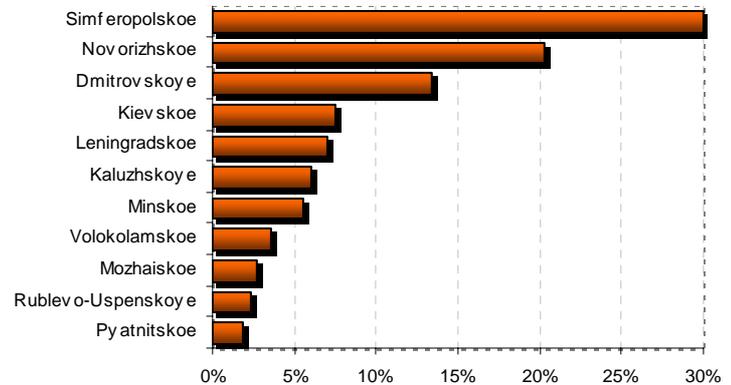
As far as the overall wholesale land market structure is concerned, land plots measuring over 50 ha represent approx 20% in the overall supply volume.

As of the end of 2009, the average price per sotka was \$12 600 if the land plot was located within 15 km of MKAD. If the plot was located within 15-50 km of MKAD, the price per sotka varied between \$6 000 and \$9 500 and if it was located farther than 50 km from MKAD - \$1 750.

Traditionally, the highest average price per 1 sotka, \$22 000, was observed in the Rublevo-Uspenskoe highway. The lowest land prices, \$1 600, could be found in the Simferopolskoe highway.

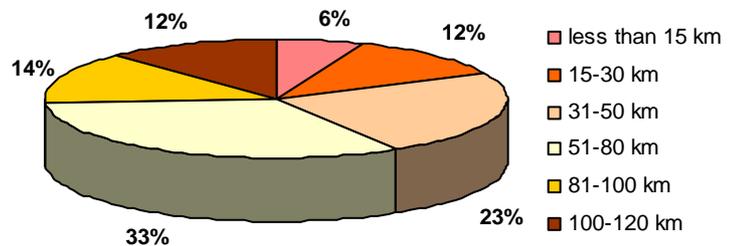
* wholesale market (≥ 5 ha)

Supply pattern of land plots in Moscow Region by highways, 2009



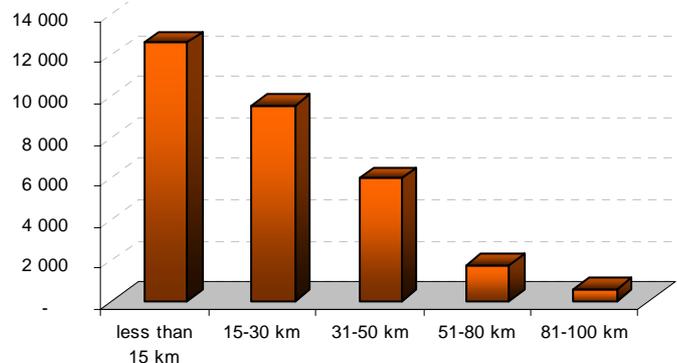
Source: Blackwood research

Supply pattern of land plots in Moscow Region by distance from MKAD, 2009



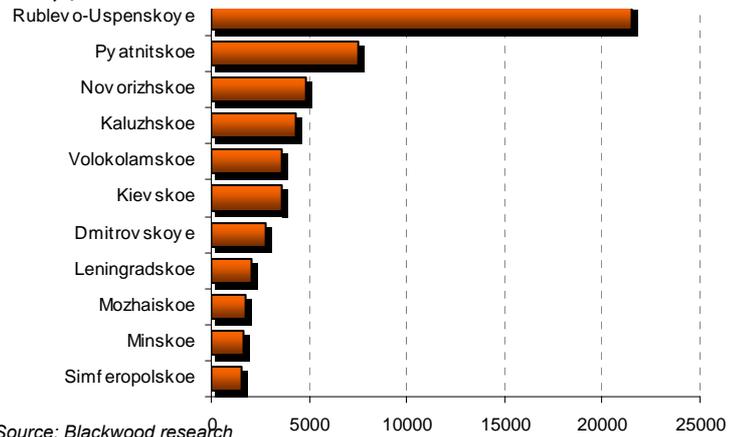
Source: Blackwood research

The average price per 1 sotka by distance from MKAD, 2009, \$/sotka



Source: Blackwood research

The average price of 1 sotka depending upon the highway, 2009, \$/sotka



Source: Blackwood research

Trends and forecast

Most projects commissioned in 2009 were economy class, and that became one of the main trends of the year.

The number of available countryside properties with high quality characteristics in the overall supply volume went down as many economy class settlements offering land plots without building contracts came into the market. In some cases, the settlement concepts were reconsidered.

Prior to the crisis, developers began to explore the eastern and southern parts of Moscow Region as well as territories located at a considerable distance from MKAD but this exploration slowed down following the financial crisis. The only exception was only the Simferopolskoe highway and the so-called distant dacha segment which continued to evolve under financial crisis conditions. The main popularity factor of low-budget projects located in underexplored areas far away from Moscow is the low price of households and land plots without building contracts.

In 2009, the share of economy class projects in the countryside market of Moscow Region amounted to 88% of the overall new supply volume, this trend is likely to continue developing in 2010. Yet, there's a risk that with time, as the number of projects offering land plots without building contracts grows, these settlements will look like a bazaar, without a clear concept or definite architectural style.

Delivery of new business and elite countryside projects slowed down considerably in 2009. We should mention that the countryside residential properties close to completion offered at fair market prices were the most sought after in these segments.

The number of quality properties in the high budget segment of the countryside residential market of Moscow Region is shrinking, and the delivery paces of new high-grade settlements are slowing down. Together these factors may change the overall supply structure in 2010 as the market share of high quality countryside properties will diminish. Since such properties may be in short supply, their prices are likely to grow at a higher pace. However, as the share of these properties in the overall market volume will decrease, the average market price indicator will grow more slowly than prior to the crisis.

We expect a gradual increase in the supply volume in the high budget segment only in late 2010 – early 2011.

As far as the price situation is concerned, we believe that the cottage settlements at the final construction and sale stage will undergo the smallest price correction in H1 2010, and the discounts offered to potential buyers will be kept to a minimum. The developers of such projects have already fixed the property prices and are quite reluctant to give discounts and make concessions. In some high-end settlements, selling prices rose in late 2009. Should there be no financial disasters, we expect positive price dynamics in H2 2010, the price growth may reach 10-15% by the end of 10-15%.

We believe that the countryside property market of Moscow Region is recovering now as the number of transactions is growing, and demand is on the upswing. Besides, more and more banks are willing to give mortgage loans for purchase of countryside properties. For instance, Transkreditbank may launch a new mortgage program for individuals who wish to buy a land plot in Moscow Region. The program will be financed out of the funds of Zemelnaya Ipoteka (Land Mortgage) close share investment fund. The fund investors will be private pension funds.

The beginning of 2010 is a favorable period for purchase of countryside properties with investment purposes as it's evident that prices of most houses have reached the lowest level. Moreover, we see that investment buyers are coming back to the market.

As in last year, the best in class properties close to completion will enjoy the highest demand, and their prices will grow especially fast.

Among the projects planned for delivery in 2010 is Novoe Stupino satellite town developed by MR Group. It's planned to build an industrial park and low-rise residential buildings, cottages and 3-storey multi-apartment blocks, on 1,95 ha of land. The overall investment amount will be 60 billion rubles. Expenses for engineering works are estimated at 15 billion rubles, financed by the state.